

RESULTS

The directors of Playmates Holdings Limited (“the Company”) are pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (“the Group”) for the six months ended 30 June 2004 (“the period”) as follows:

Condensed consolidated profit and loss account

For the six months ended 30 June 2004

		Unaudited		
		Six months ended 30 June		
		2004	2004	2003
	Note	US\$'000	HK\$'000	HK\$'000
		(Note 14)		
Turnover	2	55,982	436,658	277,366
Cost of sales		(25,543)	(199,232)	(129,289)
Gross profit		30,439	237,426	148,077
Operating expenses				
Marketing		(12,027)	(93,811)	(58,343)
Selling, distribution and administration		(12,609)	(98,351)	(76,714)
Operating profit		5,803	45,264	13,020
Non-operating income/(expenses)				
Interest expense and bank charges		(648)	(5,052)	(7,392)
Other revenues		403	3,144	1,631
Net (loss)/gain on other investments		(163)	(1,274)	9,402
		5,395	42,082	16,661
Share of profits less losses of associated companies		(261)	(2,034)	(4,069)
Profit before taxation	3	5,134	40,048	12,592
Taxation	4	(363)	(2,837)	(2,681)
Profit attributable to shareholders		4,771	37,211	9,911
Dividend	5	4,001	31,205	12,425
		<i>US cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings per share	6			
Basic		0.31	2.40	0.81
Diluted		0.30	2.37	0.76

Condensed consolidated balance sheet
As at 30 June 2004 and 31 December 2003

		Unaudited 30 June 2004 US\$'000 (Note 14)	Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 HK\$'000
Non-current assets				
Goodwill		828	6,460	6,945
Fixed assets		70,458	549,571	551,576
Investment in associated companies		4,378	34,147	39,631
		<u>75,664</u>	<u>590,178</u>	<u>598,152</u>
Current assets				
Inventories		4,661	36,355	29,108
Trade receivables	7	14,738	114,958	267,443
Other receivables, deposits and prepayments		5,603	43,704	28,931
Taxation recoverable		514	4,011	2,412
Other investments		15,424	120,306	116,694
Cash and bank balances		36,880	287,664	471,457
		<u>77,820</u>	<u>606,998</u>	<u>916,045</u>
Current liabilities				
Bank loans	8	1,675	13,068	158,034
Trade payables	9	9,692	75,593	89,339
Other payables and accrued charges		17,249	134,543	170,180
Taxation payable		2,446	19,078	21,209
		<u>31,062</u>	<u>242,282</u>	<u>438,762</u>
Net current assets		<u>46,758</u>	<u>364,716</u>	<u>477,283</u>
Total assets less current liabilities		122,422	954,894	1,075,435
Non-current liabilities				
Bank loans	8	5,248	40,934	172,789
Deferred tax liabilities		1,932	15,068	14,243
		<u>7,180</u>	<u>56,002</u>	<u>187,032</u>
Net assets		<u>115,242</u>	<u>898,892</u>	<u>888,403</u>
Financed by:				
Share capital	10	20,003	156,023	154,642
Reserves		91,238	711,664	702,833
Proposed dividend		4,001	31,205	30,928
Shareholders' funds		<u>115,242</u>	<u>898,892</u>	<u>888,403</u>

Condensed consolidated cash flow statement

For the six months ended 30 June 2004

	Unaudited		
	Six months ended 30 June		
	2004	2004	2003
	US\$'000	HK\$'000	HK\$'000
	(Note 14)		
Net cash inflow/(outflow) from operating activities	16,517	128,829	(7,945)
Net cash inflow from investing activities	5,067	39,526	24,885
Net cash (outflow)/inflow from financing activities	<u>(38,916)</u>	<u>(303,543)</u>	<u>22,252</u>
Net (decrease)/increase in cash and cash equivalents	(17,332)	(135,188)	39,192
Cash and cash equivalents at 1 January	<u>54,212</u>	<u>422,852</u>	<u>105,668</u>
Cash and cash equivalents at 30 June	<u><u>36,880</u></u>	<u><u>287,664</u></u>	<u><u>144,860</u></u>
Analysis of cash and cash equivalents:			
Cash and bank balances	36,880	287,664	232,180
Less: Deposits as securities for banking facilities	<u>-</u>	<u>-</u>	<u>(87,320)</u>
Cash and cash equivalents	<u><u>36,880</u></u>	<u><u>287,664</u></u>	<u><u>144,860</u></u>

Condensed consolidated statement of changes in equity

For the six months ended 30 June 2004

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Unaudited Capital		Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
			redemption reserve <i>HK\$'000</i>	Reserve on consolidation <i>HK\$'000</i>		
At 1 January 2004	154,642	345,240	582	21,082	366,857	888,403
Issue of shares	1,381	3,080	-	-	-	4,461
2003 final dividend paid	-	-	-	-	(31,183)	(31,183)
Profit for the period	-	-	-	-	37,211	37,211
At 30 June 2004	156,023	348,320	582	21,082	372,885	898,892

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Unaudited Capital		Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
			redemption reserve <i>HK\$'000</i>	Reserve on consolidation <i>HK\$'000</i>		
At 1 January 2003	121,087	112,553	582	21,082	308,291	563,595
Issue of shares	1,090	2,221	-	-	-	3,311
Profit for the period	-	-	-	-	9,911	9,911
At 30 June 2003	122,177	114,774	582	21,082	318,202	576,817

NOTES TO THE CONDENSED INTERIM ACCOUNTS

1. Basis of preparation and principal accounting policies

These unaudited condensed consolidated interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice 25, “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants.

These condensed interim accounts should be read in conjunction with the 2003 annual accounts.

2. Segment information

The Group is principally engaged in the design, development, marketing and distribution of toys and family entertainment activity products, and property investment and management.

Business segments

An analysis of the Group’s revenue and results for the period by business segments is as follows:

	Six months ended 30 June 2004			
	Toys	Property investment and management	Eliminations	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue				
Turnover	421,791	14,867	–	436,658
Inter-segment revenue (<i>Note iii</i>)	–	284	(284)	–
	<u>421,791</u>	<u>15,151</u>	<u>(284)</u>	<u>436,658</u>
Results				
Segment results	40,385	9,758	–	50,143
Inter-segment transactions	(284)	284	–	–
	<u>40,101</u>	<u>10,042</u>	<u>–</u>	<u>50,143</u>
Unallocated costs				(4,879)
Operating profit				<u>45,264</u>

	Six months ended 30 June 2003			
	Property investment and management		Eliminations	Group
	Toys	HK\$'000		
Revenue				
Turnover	260,473	16,893	–	277,366
Inter-segment revenue (Note iii)	–	506	(506)	–
	<u>260,473</u>	<u>17,399</u>	<u>(506)</u>	<u>277,366</u>
Results				
Segment results	4,523	12,803	–	17,326
Inter-segment transactions	(506)	506	–	–
	<u>4,017</u>	<u>13,309</u>	<u>–</u>	<u>17,326</u>
Unallocated costs				(4,306)
Operating profit				<u>13,020</u>

Notes:

- (i) **Toys** business refers to the design, development, marketing and distribution of toys and family entertainment activity products.
- (ii) **Property investment and management** business refers to the leasing of office, industrial and residential premises to generate rental income, and the provision of property management services.
- (iii) Inter-segment revenue eliminated on consolidation represents inter-company rental charges on properties owned by the Group. Inter-segment transactions are conducted at arm's length.
- (iv) The Group's associated companies are engaged mainly in toys business. The Group's share of net loss after taxation of associated companies for the period amounted to HK\$2,034,000 (2003: HK\$4,069,000), which has not been included in the segment results shown above.

Geographical segments

An analysis of the Group's turnover and segment results for the period by geographical segments is as follows:

	Turnover		Segment results	
	Six months ended 30 June		Six months ended 30 June	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
America				
– USA	307,574	219,248	20,318	117
– Others	17,758	6,758	2,218	850
Europe	78,595	24,139	14,551	2,473
Asia Pacific	31,559	26,549	12,844	13,847
Others	1,172	672	212	39
	<u>436,658</u>	<u>277,366</u>	<u>50,143</u>	<u>17,326</u>

3. Profit before taxation

Profit before taxation is stated after charging and crediting the following:

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Charging:		
Cost of inventories sold	171,766	100,505
Staff costs	32,900	30,409
Amortisation of goodwill	485	485
Depreciation of fixed assets	12,287	13,747
Loss on disposal of fixed assets	506	–
	228,244	145,156
Crediting:		
Interest income from bank deposits	1,680	1,075
Dividend income from other investments	1,464	556
	3,144	1,631

4. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the period. Overseas taxation is provided on the profits/losses of the overseas subsidiaries in accordance with the tax laws of the countries in which these entities operate.

The taxation charge/(credit) in the condensed consolidated profit and loss account comprises:

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Current taxation		
Hong Kong profits tax	742	371
Overseas taxation	1,270	–
Over-provision in prior years	–	(108)
	2,012	263
Deferred taxation		
Origination and reversal of temporary differences	825	1,386
Deferred taxation resulting from an increase in tax rate	–	1,032
	825	2,418
	2,837	2,681

5. Dividend

At a meeting held on 6 August 2004, the directors declared an interim dividend of HK cents 2 (2003: HK cent 1) per share for the year ending 31 December 2004 to be paid on 6 September 2004 to shareholders on the Company's Register of Members on 30 August 2004. This proposed dividend is not reflected as a dividend payable in these condensed accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2004.

6. Earnings per share

The calculations of basic and diluted earnings per share are based on the following data:

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Profit attributable to shareholders for the purpose of calculating basic and diluted earnings per share	<u>37,211</u>	<u>9,911</u>
	Number of shares	
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,553,168,000	1,217,863,000
Number of potential ordinary shares issuable under share options and warrants	<u>16,684,000</u>	<u>90,136,000</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>1,569,852,000</u>	<u>1,307,999,000</u>

7. Trade receivables

As at 30 June 2004, 99.2% (31 December 2003: 99.8%) of the trade receivables net of provisions were current to 30 days, 0.1% (31 December 2003: nil) were 31 to 60 days and the remaining were over 60 days.

The normal trade terms with toy business customers are letters of credit at sight or usance or on open accounts with credit term of 60 days on average. For property investment and management business, no credit term is granted to tenants.

8. Bank loans

	Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 <i>HK\$'000</i>
Secured bank loans payable:		
Within one year	3,480	133,123
In the second year	3,495	16,945
In the third to fifth years	10,574	55,776
After the fifth year	26,865	100,068
	44,414	305,912
Unsecured bank loan payable within one year	9,588	24,911
	54,002	330,823
Current portion included in current liabilities	(13,068)	(158,034)
	40,934	172,789

As at 30 June 2004, the Group had banking facilities amounting to approximately HK\$366 million (31 December 2003: HK\$511 million), of which HK\$58 million (31 December 2003: HK\$333 million) were utilised.

The banking facilities of certain subsidiaries are secured by bank balances of HK\$nil (31 December 2003: HK\$49 million), other investments of HK\$nil (31 December 2003: HK\$112 million) and investment properties with aggregate net book value of HK\$524 million (31 December 2003: HK\$542 million) of the Group at 30 June 2004.

9. Trade payables

As at 30 June 2004, 96.5% (31 December 2003: 73.0%) of the trade payables were current to 30 days, 1.4% (31 December 2003: 24.0%) were 31 to 60 days and the remaining were over 60 days.

10. Share capital

	Authorised Ordinary shares of HK\$0.10 each	
	No. of shares	HK\$'000
At 30 June 2004 and 31 December 2003	<u>3,000,000,000</u>	<u>300,000</u>
	Issued and fully paid Ordinary shares of HK\$0.10 each	
	No. of shares	HK\$'000
At 1 January 2003	1,210,867,810	121,087
Issue of shares	130,000,000	13,000
Exercise of warrants	190,364,030	19,036
Exercise of share options	<u>15,186,000</u>	<u>1,519</u>
At 1 January 2004	1,546,417,840	154,642
Exercise of warrants (<i>Note i</i>)	11,099,771	1,110
Exercise of share options	<u>2,717,000</u>	<u>271</u>
At 30 June 2004	<u>1,560,234,611</u>	<u>156,023</u>

Notes:

- (i) The warrants were exercisable from 13 May 2002 to 12 May 2004 at an initial subscription price of HK\$0.30 per share (subject to adjustment). On 12 May 2004, 346,100 warrants which had not been exercised, were lapsed.
- (ii) On 20 May 2004, 311,831,475 warrants were issued pursuant to an ordinary resolution passed at the general meeting of the Company held on 14 May 2004 on the basis of the bonus issue of one warrant for every five shares held. These warrants are exercisable from 24 May 2004 to 23 May 2005 at an initial subscription price of HK\$1.42 per share (subject to adjustment). As at 30 June 2004, all the warrants issued on 20 May 2004 remained unexercised.

11. Contingent liabilities

There was no material change in contingent liabilities compared to those disclosed in the most recently published annual report.

12. Commitments

Licensing commitments

In the normal course of business, the Group enters into contractual licensing agreements to secure its rights to create, develop and market certain toys and family entertainment activity products for future sales. Certain licensing agreements contain financial commitments by the Group to the licensors to be fulfilled during the terms of the contracts. The amounts of financial commitments contracted but not provided for at 30 June 2004 were payable as follows:

	Unaudited 30 June 2004 <i>HK\$'000</i>	Audited 31 December 2003 <i>HK\$'000</i>
Within one year	17,148	4,695
In the second to fifth years inclusive	19,890	5,256
	37,038	9,951

13. Operating lease arrangements

The Group acts as lessee and lessor under operating leases. Details of the Group's commitments under non-cancellable operating leases are set out as follows:

(a) As lessee

At 30 June 2004, the future aggregate minimum lease payments under non-cancellable operating leases for office and warehouse facilities payable by the Group were as follows:

	Unaudited 30 June 2004 <i>HK\$'000</i>	Audited 31 December 2003 <i>HK\$'000</i>
Within one year	9,040	9,961
In the second to fifth years inclusive	12,213	15,058
After the fifth year	1,954	2,005
	23,207	27,024

The Group has non-cancellable subleases with future minimum sublease receipts of HK\$6,748,000 (31 December 2003: HK\$6,009,000).

(b) As lessor

At 30 June 2004, the future aggregate minimum lease payments under non-cancellable operating leases for office, industrial and residential premises receivable by the Group were as follows:

	Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 HK\$'000
Within one year	23,373	24,014
In the second to fifth years inclusive	13,593	17,344
	36,966	41,358

14. US dollar equivalents

These are shown for reference only and have been arrived at based on the exchange rate of HK\$7.8 to US\$1 ruling at 30 June 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Performance Highlights

For the six months ended 30 June	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	Percentage change
Turnover	436,658	277,366	+ 57%
Gross profit	237,426	148,077	+ 60%
Operating profit	45,264	13,020	+ 248%
Profit attributable to shareholders	37,211	9,911	+ 275%
Earnings per share	<i>HK cents</i>	<i>HK cent</i>	
– Basic	2.40	0.81	
– Diluted	2.37	0.76	

Property Rental and Management

Income from property rental and management (before inter-segment revenue elimination) for the period amounted to HK\$15,151,000, compared to HK\$17,399,000 a year ago, representing a drop of about 13%. The decrease was mainly attributable to the difficulty in securing tenants to replace expired leases during the immediate post-SARS period in the second half of 2003. As the local economy recovers, leasing activities are expected to become more active. The Group is cautiously optimistic that rental and related income will improve during the balance of the year. As at the end of the period, the overall occupancy rate was 91% versus 88% on 31 December 2003. Management maintains the view that the property investment and management business will continue to provide a steady income to augment the core business of the Group.

Playmates Toys Overview

Income from toy sales was HK\$421,791,000, or an increase of 62% compared to HK\$260,473,000 a year ago. Playmates Toys' disciplined brand building and focused marketing strategies resulted in major increases in sales, gross margin and operating profit. All core brands contributed to this strong performance as the Group continued to build a balanced portfolio of proprietary and licensed entertainment properties and expand worldwide distribution. At the end of the first half of 2004, Playmates Toys is well positioned to achieve its full year objectives.

Of particular note during the first half were the increases in both gross margin and operating profit. Gross margin has consistently improved over the past two years, primarily due to significant efficiency gains in the product development function. The increase in operating profit reflects the Group's ability to more fully leverage the low overhead operating model adopted in 2002.

International sales growth is attributable to the continued success of the *Teenage Mutant Ninja Turtles*[®] (“*Turtles*”) brand, and the strong performance of the other core brands. Both *Speedeez*[®] and *Disney Princess* launched in important markets during the first half. International sales increased by 177% over the same period last year and accounted for 27% of Playmates Toys’ turnover during the period. With strong first half results and a healthy order position at mid year, international sales are on track to achieve the planned full year growth target.

Teenage Mutant Ninja Turtles[®]

In the second full year of distribution, and despite vigorous competition in the action figure category, the *Turtles* brand continues to grow and consistently ranks among the top three best selling brands in the male action category in the U.S. and major international markets including Canada, the U.K., France, and Australia. *Turtles* worldwide sales increased by 79% over the same period last year. By the end of the year, *Turtles* distribution will expand to over 45 countries.

U.S. *Turtles* sales growth was propelled by the Group’s comprehensive marketing and promotional support and by the Monday through Friday broadcast of the animated television series on the *Cartoon Network*^{TM&®}. A total of 104 episodes of the series are now completed or in production. This production commitment will deliver a steady stream of new episodes for both the *FOX Box*[®] Saturday morning and *Cartoon Network*^{TM&®} weekday broadcasts throughout 2004 and 2005.

This fall, *Turtles* will be one of the lead boys’ properties to premier on *Majesco’s* new *Game Boy Advance Video*TM entertainment system. With a U.S. installed base of over 20 million units, the *Game Boy Advance Video*TM platform will expose even more kids to *Turtles* and will enable fans to watch their favorite *Turtles* animation whenever and wherever they wish. Negotiations are continuing to add *Turtles* episodes to the library of television series available for use on other portable entertainment platforms.

Worldwide, the non-toy license program has grown to 113 licensees and continues to expand as *Turtles*’ distribution grows. During the first half and continuing for the balance of the year, the Group, in concert with other non-toy *Turtles*’ licensees, will promote the brand through extensive, multi-layered marketing, including television advertising, retail promotions, on-air and on-line events.

The Group’s *Turtles* toy line has substantially expanded from last year in every key product segment: basic figures, special feature figures, vehicles, playsets, and role play accessories. Strong customer support is reflected in expanded retail presence. Fall retail shelf space for the brand is planned to substantially increase over the same period last year.

With continuous television advertising during the fall season, an expanded product offering, enhanced programming coverage, increased retail presence and targeted marketing efforts from a wide range of promotional and licensing partners, the *Turtles* brand is well positioned for continued growth in the years ahead.

Speedeez®

Sales of the *Speedeez®* brand during the first half increased 169% over the same period last year. The sustained focus by Playmates Toys on design innovation, packaging creativity, distribution expansion and the continued communication of the unique attributes of the patented *Turbo Ball* technology successfully overcame competition and established *Speedeez®* as the leading brand in the highly competitive micro scale vehicle business.

Speedeez® international distribution is expanding to over 25 countries including Spain, Italy, and Latin America. Playmates Toys recently acquired license rights from *BMW* to launch a *Mini Cooper S* playset which will anchor the marketing efforts of distributors in all major international markets this fall. It is expected that this universally recognized vehicle will replicate the success of the *Hummer H2* playset in the U.S. in 2003.

Disney®

Playmates Toys' continued focus on a select few, well defined product lines within the *Disney® Princess* brand delivered sales gains in the first half of 56% over the same period last year. In its third year, the *Little Princess* doll assortment remains the best selling large doll in the U.S. The assortment was extended, at a higher retail price, through the introduction of the *Little Princess Color Change* collection. The ability to launch an extension to the *Little Princess* segment at a price premium to the original product offering is testament to the continued strength and long term growth potential of the *Disney® Princess* franchise. During 2004 *Disney® Princess* dolls will be introduced in all major European markets and a total of over 25 countries worldwide.

A new *My Baby Princess* line will be launched this fall. This large doll assortment is the first time that the *Classic Princesses* have been interpreted as babies and reflects Playmates Toys' close and collaborative working relationship with *Disney Consumer Products*. Brand expansion will continue in 2005 when the Group will introduce a new scale and positioning strategy for the *Classic Princesses* through the introduction of the "World of Cinderella" segment.

Waterbabies®

A 56% increase in sales during the first half over the same period last year set the stage for a promotional renewal for this 15 year brand this fall. This sales growth was led by improved performance of the core *Sweet Cuddlers®* line and the licensed *Waterbabies®* segment, the latter benefiting from the continued popularity of *Care Bears™&©*.

A new *Wiggly Giggly Waterbabies®* assortment will be television advertised this fall. These dolls will be the first *Waterbabies®* to be promoted on television in many years. Previous experience suggests that sales for the entire brand can be expected to benefit from this advertising effort. The *Wiggly Giggly Waterbabies®* campaign will also spearhead the launch of the *Waterbabies®* brand in Latin America.

In spring 2005, Playmates Toys will launch a new product segment – sculpted **Waterbabies**[®] characters. The first character to be brought to life with the **Waterbabies**[®] proprietary design will be *Blue* from *Nickelodeon's Blue's Clues*[™]. *Blue* is the first in a collection of *Nickelodeon* and other licensed characters to be introduced in this new line.

Blinkies[™]

This fall Playmates Toys will introduce **Blinkies**[™] with an extensive promotional and comprehensive marketing campaign. **Blinkies**[™] is an interactive, virtual “best friend” and features a wide variety of themes and play patterns that reflect contemporary interests of young girls. This youth electronic lifestyle product is the first such product to feature a color interactive screen at an affordable price.

Blinkies[™] is broadly supported by all major U.S. customers. Distributors in the U.K. and Canada will launch **Blinkies**[™] to coincide with the U.S. marketing campaign. Localization is underway in preparation for the 2005 launch of **Blinkies**[™] in leading non-English speaking markets.

2005 and Beyond

The Group has recently previewed its 2005 spring product lines to major customers. Both core brand extensions and new brand introductions have been well received by U.S. retailers and international distributors.

Recent entertainment licenses added to Playmates Toys' brand portfolio include **Atomic Betty**[®] and **Delgo**[®]. Playmates Toys has acquired the master toy license for both properties.

Atomic Betty[®] dolls and playsets, inspired by the *Cartoon Network*^{™&®} animated television series of the same name will be launched in spring 2005. The series will premier in September 2004 and is being heralded as *Cartoon Network's*^{™&®} leading new girls action franchise.

Delgo[®] is a computer animated feature film from *Fathom Studios*, a leading CGI production company in the U.S. The movie's cutting edge animation, compelling story and wide array of original characters will inspire a range of action figures and related accessories. **Delgo**[®] is expected to premier in the U.S. in late 2005.

The Group continues to selectively invest in new brands and entertainment licenses that offer significant potential for long term growth. The continued development of previously announced properties and the addition of **Delgo**[®] and **Atomic Betty**[®] to Playmates Toys' portfolio are consistent with this strategy.

The 2004 first half results are further evidence of the effectiveness of the Group's operating strategies. The brand building fundamentals that have fueled growth during the past two years will continue to guide Playmates Toys' efforts in the expansion of core brands and the identification of new licenses and product opportunities.

As the fall selling season begins, the Group's distribution continues to expand both in the U.S. and internationally. Core brands continue to perform well, and key gross margin and operating profit indicators remain on target. Additionally, progress is being made in further business expansion through the acquisition of new licenses and the entry into new product categories for 2005 and beyond.

Liquidity and Financial Resources

The toy business is inherently seasonal in nature. Generally speaking, sales in the second half-year are much higher than in the first half. As a result, a disproportionately high balance of trade receivables is generated during the peak selling season in the second half of the year. Consistent with usual trade practices, a significant portion of the trade receivables is collected in the final weeks of the fourth quarter and in the first quarter of the subsequent year, resulting in a seasonal demand for working capital during the peak selling seasons. As at 30 June 2004, trade receivables related to toys operation were HK\$114,611,000 (31 December 2003: HK\$267,182,000) and inventories were HK\$36,355,000 (31 December 2003: HK\$29,108,000).

The property investment and management business generates a relatively steady income stream throughout the period. Approximately 91% of the total gross floor area of the Group's investment properties were leased out as at 30 June 2004. Account receivables were minimal as at the period end.

The Group's gearing ratio, defined as total bank borrowings expressed as a percentage of total tangible assets, at 30 June 2004 was 4.5% compared to 21.9% at 31 December 2003. The current ratio, calculated as the ratio of current assets to current liabilities, was 2.5 at 30 June 2004 compared to 2.1 at 31 December 2003. As at 30 June 2004, the Group's cash and bank balances were HK\$287,664,000 compared to HK\$471,457,000 at 31 December 2003.

Charges on Group Assets

Details of charges on group assets are set out in note 8 to the interim accounts.

Employees

As at 30 June 2004, the Group had a total of 112 employees in Hong Kong, the Mainland China and the United States of America.

There was no material change in remuneration policies compared to those disclosed in the most recently published annual report.

SHARE OPTIONS

The followings show the particulars of the share options of the Company granted to directors of the Company and employees of the Group, pursuant to the Share Option Plan (“Plan”) and the Share Option Scheme (“Scheme”) adopted on 4 May 1998 and 28 June 2002 respectively, that are required to be disclosed under Rule 17.07 of Chapter 17 and Rule 41(2) of Appendix 16 of the Listing Rules:

Participant	Date of grant	Exercise price HK\$	Number of share options				Balance at 30 June 2004
			Balance at 1 January 2004	Granted during the period	Exercised during the period (Note (1) & Note (2))	Lapsed during the period	
Plan							
Sidney TO Shu Sing	26 August 1998	0.532	529,000	–	–	–	529,000
<i>Director</i>	27 May 1999	0.506	529,000	–	–	–	529,000
	20 October 1999	0.434	660,000	–	–	–	660,000
	22 July 2000	0.626	551,000	–	–	–	551,000
	21 May 2001	0.297	1,024,000	–	–	–	1,024,000
<i>Continuous Contract</i>	15 May 1998	0.532	2,618,800	–	246,200	–	2,372,600
<i>Employees, excluding</i>	27 May 1999	0.506	962,700	–	450,000	–	512,700
<i>Directors</i>	22 July 2000	0.626	1,579,800	–	–	27,000	1,552,800
	21 May 2001	0.297	4,158,200	–	505,800	74,000	3,578,400
	28 August 2001	0.294	8,163,000	–	–	–	8,163,000
Scheme							
Sidney TO Shu Sing	9 August 2002	0.199	1,200,000	–	–	–	1,200,000
<i>Director</i>	10 March 2003	0.550	1,200,000	–	–	–	1,200,000
	7 January 2004	1.360	–	1,200,000	–	–	1,200,000
Allen LEE Peng Fei	9 August 2002	0.199	500,000	–	–	–	500,000
<i>Director</i>							
Anthony LO Kai Yiu	9 August 2002	0.199	1,000,000	–	–	–	1,000,000
<i>Director</i>							
TSIM Tak Lung	9 August 2002	0.199	500,000	–	–	–	500,000
<i>Director</i>							
David YU Hon To	9 August 2002	0.199	1,000,000	–	500,000	–	500,000
<i>Director</i>							
<i>Continuous Contract</i>	9 August 2002	0.199	8,977,500	–	99,000	109,000	8,769,500
<i>Employees, excluding</i>	10 March 2003	0.550	11,071,000	–	915,600	393,000	9,762,400
<i>Directors</i>	7 January 2004	1.360	–	14,382,000	400	202,000	14,179,600
	19 March 2004	1.240	–	11,000,000	–	–	11,000,000

Notes:

- (1) The closing price of the ordinary shares of the Company immediately before the date on which the options were exercised by Mr. David Yu Hon To during the period was HK\$1.240.
- (2) The weighted average closing price of the ordinary shares of the Company immediately before the dates on which the options were exercised by continuous contract employees, excluding directors, during the period was HK\$1.205.

The closing prices of the ordinary shares of the Company on 6 January 2004 and 18 March 2004, being the trading days immediately before the dates on which the share options were granted during the period, were HK\$1.330 and HK\$1.250 respectively.

The above share options are exercisable in stages in accordance with the terms of the Plan and the Scheme within ten years after the date of grant. No options were cancelled during the period.

Share options granted are not recognised in the accounts until they are exercised. The weighted average value per option granted during the period estimated at the date of grant using the Black-Scholes option pricing model was HK\$0.812. The calculation of the weighted average value per option granted during the period does not take into account options granted and forfeited during the period. The weighted average assumptions used are as follows:

Risk-free interest rate	3.94%
Expected life (in years)	10
Volatility	0.573
Expected dividend yield	1.02%

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, such option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. As the Company's share options have characteristics significantly different from those of traded options and changes in the subjective input assumptions can materially affect the fair value estimate, the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2004, the interests of each director and chief executive of the Company in the shares, underlying shares of equity derivatives and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (“SFO”)) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (“Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Long position in shares

Name of director	Name of company	Capacity/nature of interest	Number of shares held	Percentage interests held
Thomas CHAN Chun Hoo	Playmates Holdings Limited	Corporate (<i>Note (a)</i>)	610,000,000 ordinary shares	39.10%
Sidney TO Shu Sing	Playmates Holdings Limited	Personal	7,300,000 ordinary shares	0.47%
Charles IP Shu Wing	Playmates Holdings Limited	Personal	18,400,000 ordinary shares	1.18%
	Nippon Toys Limited	Personal (<i>Note (b)</i>)	1 share	50%
Anthony LO Kai Yiu	Playmates Holdings Limited	Personal	1,400,000 ordinary shares	0.09%
TSIM Tak Lung	Playmates Holdings Limited	Personal	720,000 ordinary shares	0.05%
David YU Hon To	Playmates Holdings Limited	Corporate & Personal (<i>Note (c)</i>)	4,000,000 ordinary shares	0.26%

Long position in underlying shares of the Company

Name of director	Capacity/ nature of interest	Number of equity derivatives held	Number of underlying shares (ordinary share)	Percentage interests held
Thomas CHAN Chun Hoo	Corporate (Note (a))	122,000,000 warrants	122,000,000 shares	7.82%
Sidney TO Shu Sing	Personal	1,460,000 warrants	1,460,000 shares	0.09%
	Personal	6,893,000 share options	6,893,000 shares	0.44%
Charles IP Shu Wing	Personal	3,680,000 warrants	3,680,000 shares	0.24%
Allen LEE Peng Fei	Personal	500,000 share options	500,000 shares	0.03%
Anthony LO Kai Yiu	Personal	280,000 warrants	280,000 shares	0.02%
	Personal	1,000,000 share options	1,000,000 shares	0.06%
TSIM Tak Lung	Personal	144,000 warrants	144,000 shares	0.01%
	Personal	500,000 share options	500,000 shares	0.03%
David YU Hon To	Corporate & Personal (Note (c))	800,000 warrants	800,000 shares	0.05%
	Personal	500,000 share options	500,000 shares	0.03%

Notes:

- (a) 610,000,000 ordinary shares and 122,000,000 warrants of the Company were beneficially owned by Angers Investments Limited (“AIL”). All the issued share capital of AIL is beneficially owned by a private company which is in turn wholly-owned by Mr. Thomas Chan Chun Hoo.
- (b) Mr. Charles Ip Shu Wing has a personal interest of one share in Nippon Toys Limited, an associated company of the Group.
- (c) 3,500,000 ordinary shares and 700,000 warrants of the Company were held by a private company which is 50% owned by Mr. David Yu Hon To and 50% owned by a member of his family.

The percentage shown was the number of shares or underlying shares the relevant director was interested expressed as a percentage of the number of issued shares as at 30 June 2004.

The warrants are exercisable at any time from 24 May 2004 to 23 May 2005, both dates inclusive, at an initial subscription price of HK\$1.42 per share (subject to adjustment) and subject to the terms and conditions under the Warrant Instrument dated 20 May 2004.

Details of the share options held by the directors and chief executive of the Company are disclosed in the above section headed “Share Options”.

As at 30 June 2004, none of the directors and chief executive of the Company were interested or deemed to be interested in short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation.

SHAREHOLDERS’ INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY REQUIRED TO BE RECORDED UNDER SECTION 336 OF THE SFO

As at 30 June 2004, persons (other than the directors and chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company, being 5% or more of the Company’s issued share capital, as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long position

Name	Capacity/ nature of interest	Number of shares/ warrants	Percentage interests held
HSBC Asset Management (Hong Kong) Limited	Investment manager	99,100,000 ordinary shares 9,434,000 warrants	6.35% 0.60%

Other than the interests disclosed above in respect of directors and chief executive, the directors are not aware of any other person who was, as at 30 June 2004, shown in the register required to be kept under section 336 of the SFO to be interested, directly or indirectly, in 10% or more of the nominal value of the share capital carrying rights to vote in all circumstances at general meetings of the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company’s shares during the period.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in the Listing Rules Appendix 14 Guidelines throughout the six months ended 30 June 2004, with the exception that all non-executive directors of the Company were not appointed for a specific term. Pursuant to clause 87(1) of the Bye-laws of the Company, non-executive directors are subject to retirement by rotation and re-election (if they offer themselves for re-election) at the Company's annual general meetings.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 27 August 2004 to 30 August 2004, both days inclusive, during which period no transfer of shares will be effected. In order to be qualified for the declared dividend, all completed transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Registrars, Abacus Share Registrars Limited, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong no later than 4:00 p.m. on 26 August 2004.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed interim accounts for the six months ended 30 June 2004.

On behalf of the Board
Thomas CHAN Chun Hoo
Chairman

Hong Kong, 6 August 2004

CORPORATE INFORMATION

Executive Directors

Thomas CHAN Chun Hoo (*Chairman*)
Sidney TO Shu Sing

Non-executive Directors

Charles IP Shu Wing
TSIM Tak Lung (*Deputy Chairman*)

Independent Non-executive Directors

Allen LEE Peng Fei
Anthony LO Kai Yiu
David YU Hon To

Company Secretary

Tracy FONG Yuk Yu *FCIS*

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Office

21/F., The Toy House
100 Canton Road
Tsimshatsui
Kowloon, Hong Kong

Stock Code

The shares of Playmates Holdings
Limited are listed for trading on The
Stock Exchange of Hong Kong Limited
(Stock code: 0635)

Website

www.playmatestoys.com

Auditors

PricewaterhouseCoopers
Certified Public Accountants

Legal Advisors

Conyers Dill & Pearman
Deacons

Principal Bankers

The Hongkong and
Shanghai Banking Corporation Limited
Standard Chartered Bank

Principal Share Registrars

The Bank of Bermuda Limited
6 Front Street
Hamilton HM11, Bermuda

Branch Share Registrars

Abacus Share Registrars Limited
G/F., Bank of East Asia Harbour View
Centre
56 Gloucester Road
Wanchai, Hong Kong



Playmates[®]

With over thirty five years of experience, Playmates Holdings Limited is among the most well respected and innovative marketing and distribution companies in the global toy industry. Playmates has a proven history in the creation of profitable, long term brand franchises and currently manages a balanced portfolio of licensed entertainment and proprietary product lines. From its offices in Hong Kong, China and the United States, Playmates designs, develops, markets and distributes its products in over sixty countries worldwide.

Playmates Holdings Limited

(Incorporated in Bermuda with limited liability)